

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

H O N D U R A S

**PROGRAM FOR SUSTAINABLE INSTITUTIONAL
STRENGTHENING OF THE ROAD SECTOR**

**Operation No. 1106/SF-HO
Approved on June 19, 2002**

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

HONDURAS

INNOVATION LOAN

PROGRAM FOR SUSTAINABLE INSTITUTIONAL STRENGTHENING OF THE ROAD SECTOR

(HO-0116)

LOAN PROPOSAL

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ABBREVIATIONS

DGC	Dirección General de Carreteras [Office of Highways]
EMS	Environmental Management System
EMU	Environmental Management Unit
ESMP	Environmental and Social Management Plan
GGPE	Grupo Gerencial de Proyectos y Ejecución [Project and Execution Management Group]
HDM	Highway Design and Maintenance Standard Model
ICB	International competitive bidding
IDB	Inter-American Development Bank
RECAP	Reconstrucción de Emergencia de Caminos y Puentes [Emergency Reconstruction of Roads and Bridges]
SEFIN	Ministry of Economy and Finance
SOPTRAVI	Ministry of Public Works, Transport, and Housing
UPEG	Unidad de Planeamiento y Evaluación de Gestión [Department of Planning and Evaluation of Development]
USAID	United States Agency for International Development

HONDURAS

PROGRAM FOR SUSTAINABLE INSTITUTIONAL STRENGTHENING OF THE ROAD SECTOR (H0-0116)



This map, prepared by the Inter-American Development Bank, has not been approved by any competent authority and its inclusion in the loan document has the exclusive objective of indicating the area of influence of the project proposed for financing.

DESIGN UNIT ITS/GSV (05.23.02)



HONDURAS

IDB LOANS

APPROVED AS OF APRIL 30, 2002

	US\$Thousand	Percent
TOTAL APPROVED	2,183,857	
DISBURSED	1,786,244	81.8%
UNDISBURSED BALANCE	397,613	18.2%
CANCELLATIONS	163,146	7.5%
PRINCIPAL COLLECTED	605,059	27.7%
APPROVED BY FUND		
ORDINARY CAPITAL	490,674	22.5%
FUND FOR SPECIAL OPERATIONS	1,627,419	74.5%
OTHER FUNDS	65,764	3.0%
OUTSTANDING DEBT BALANCE	1,181,185	
ORDINARY CAPITAL	185,756	15.7%
FUND FOR SPECIAL OPERATIONS	994,995	84.2%
OTHER FUNDS	435	0.0%
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	289,341	13.2%
INDUSTRY, TOURISM, SCIENCE -TECHNOLOGY	70,036	3.2%
ENERGY	396,075	18.1%
TRANSPORTATION AND COMMUNICATIONS	380,675	17.4%
EDUCATION	71,293	3.3%
HEALTH AND SANITATION	241,281	11.0%
ENVIRONMENT	67,879	3.1%
URBAN DEVELOPMENT	142,144	6.5%
SOCIAL INVESTMENT AND MICROENTERPRISE	300,200	13.7%
REFORM -PUBLIC SECTOR MODERNIZATION	191,539	8.8%
EXPORT FINANCING	6,908	0.3%
PREINVESTMENT AND OTHER	26,486	1.2%

* Net of cancellations with monetary adjustments and export financing loan collections.



INTER-AMERICAN DEVELOPMENT BANK
Regional Operations Support Office
Operational Information Unit

HONDURAS

STATUS OF LOANS IN EXECUTION AS OF APRIL 30, 2002

(Amounts in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROJECTS	AMOUNT APPROVED	AMOUNT DISBURSED	% DISBURSED
Before 1996	6	67,300	52,583	78.13%
1996 - 1997	4	42,550	23,959	56.31%
1998 - 1999	8	252,416	114,073	45.19%
2000 - 2001	16	253,735	28,409	11.20%
TOTAL	34	\$616,001	\$219,024	35.56%

* Net of Cancellations . Excluding export financing loans.



Inter-American Development Bank
Regional Operations Support Office
Operational Information Unit

Honduras

Tentative Lending Program

2002

Project Number	Project Name	IDB US\$ Millions	Status
HO0175	San Pedro Sula Municipal Dev II	9.0	
HO0116	Sustainable Strength of Roads Sector	7.6	
HO0217	Supplement Sewer System Puerto Cortés	5.0	
*HO0211	San Pedro Sula Water and Sewerage Projec	13.7	
HO0192	Microenterprise Global Program	35.0	
HO0210	Judicial System Modernization	30.0	
HO0212	Poverty Reduction Sector Program	30.0	
HO0198	Environmental Management Bay Islands Phase II	12.0	
Total - A : 8 Projects		142.3	
HO0189	Strength Trade Negotiations Capacity	3.5	
HO0197	Poverty Reduction Program focusing on Indigenous peoples and Afro descendants	10.0	
HO0205	Sula Valley Citizenship Security	20.0	
HO0214	Statistics System Modernization	4.0	
HO0208	Disaster Risk Mgmt. and Insurance	5.0	
HO0174	Sanitation and Water Investment Complem.	14.0	
Total - B : 6 Projects		56.5	
TOTAL 2002 : 14 Projects		198.8	

2003

Project Number	Project Name	IDB US\$ Millions	Status
HO0139	Housing Program II	30.0	
HO0140	Health Sector Reform	30.0	
HO0181	Reform of the Hondurean Family Institute	3.0	
HO0191	Marginal Areas Improvement	15.0	
HO0194	Basic Education Second Stage	25.0	
HO0195	Coast Marines Enviromental Systems Management	16.2	
HO0202	Secondary Education Program	15.0	
HO0215	Labor Market Program	10.0	
HO0216	Homeless Women and Children	10.0	
Total - A : 9 Projects		154.2	
HO0199	Yojoa Lake Enviromental and Tourist Dev.	17.0	
HO0207	Roads Rehab and Sustainability Fase I	60.0	
Total - B : 2 Projects		77.0	
TOTAL - 2003 : 11 Projects		231.2	
Total Private Sector 2002 - 2003		13.7	
Total Regular Program 2002 - 2003		416.3	

*** Private Sector Project**

PROGRAM FOR SUSTAINABLE INSTITUTIONAL STRENGTHENING OF THE ROAD SECTOR

(HO-0116)

EXECUTIVE SUMMARY

Borrower:	Republic of Honduras	
Executing agency:	Secretaría de Obras Públicas, Transporte y Vivienda [Ministry of Public Works, Transport, and Housing] (SOPTRAVI)	
Amount and source:	IDB (FSO):	US\$7,600,000
	Local contribution:	US\$ 900,000
	Total:	US\$8,500,000
Financial terms and conditions:	Amortization period:	40 years
	Grace period:	10 years
	Execution:	18 months
	Disbursement:	24 months
	Interest rate:	1% for the first 10 years, 2% thereafter
	Inspection and supervision:	1%
Objectives:	Credit fee:	0.50% annually on undisbursed balance
	The general objective of the program is to improve the quality of road construction, the reliability and availability of resources allocated to the sector, and the safety levels of the road system in Honduras, through the institutional strengthening of SOPTRAVI. The specific objectives of the program are: (i) implementation of institutional strengthening actions in the planning and execution of road works, and in preparation of the designs for works that may be financed in the future, through HO-0207; and (ii) implementation of a pilot road safety project.	
Description:	The program consists of three components, which are described below:	
	1) Institutional strengthening: Resources of this subcomponent will be used to finance the implementation and operation of the Grupo Gerencial de Proyectos y Ejecución [Project and Execution Management Group] (GGPE), as a new department within	

SOPTRAVI for managing and executing road projects (see paragraphs 3.1 through 3.4 and table 3.1.) The project supports establishment of the multiyear investment plan, creating the capacity to plan, formulate, and supervise road projects. Support will also be provided for restructuring of payment processes and the contracting and coordination of those processes with other government agencies. A strategy will be designed for optimal management of human resources, and a strengthening program will be undertaken for the road management training system. This component also seeks to institutionalize environmental management and the vulnerability variable, by strengthening the Environmental Management Unit (EMU).

2) Support for the planning and design system: The program will support the preparation of a strategic plan for the transportation sector, with a view to guiding long-term investment decisions. Financing will also be provided for preparation of a road concession feasibility study.

3) Support for the road fund and road safety: Financing will be provided for design and implementation of a management evaluation system to verify maintenance companies' compliance with objectives. Improvement in road safety will begin with accident prevention activities through the design, implementation, and evaluation of a pilot project on the Carretera del Norte (CA-5 between San Pedro Sula and Tegucigalpa), and with integration of the road safety variable. One or more bilateral donors is expected to offer cofinancing resources for this road safety component in the future.

**Innovation
project
rationale:**

The program was designed for the specific case of the road sector in Honduras as an innovation loan based on the fact that it undertakes a series of experimental actions for the public administration environment and the road sector in Honduras. Specifically, the innovation program is based on the following considerations: (i) it reorganizes the institutional basis of SOPTRAVI by using an innovative project management model for Honduras to address the various challenges facing the sector; (ii) it enhances the creation of consensus among various government agencies concerning the importance of maintaining road infrastructure and the stability of financing for road investments, through a multiyear planning system; (iii) it supports the training and strengthening of SOPTRAVI previous to financing future road works; (iv) it introduces the safety component for the first time in Honduras as an activity inseparable from highway operation; (v) the lessons learned may be used, in the future, for SOPTRAVI's other road investments using local and international resources; and (vi) it implements a monitoring and evaluation system that will provide feedback for measuring program

performance and outcomes.

The Bank's country and sector strategy:

A central objective of the Bank's country paper is to provide support for the reconstruction and transformation process in Honduras. The following priorities have been set within the institutional framework of the transportation sector under the Poverty Reduction Strategy: (i) organization of the institutional framework; (ii) private-sector participation; and (iii) establishment of sector policies. The program covers these objectives in that it helps to establish a solid institutional basis for SOPTRAVI and the private entities involved in the sector to strengthen planning and allocation of available resources, analyze new financing approaches for road maintenance and rehabilitation, and provide the human resources and training needed to bring about efficient road administration.

Environmental and social review:

The Committee on Environment and Social Impact (CESI/TRG) reviewed the operation on 5 April 2002, the its recommendations have been included in this project report (see paragraphs 4.6 to 4.10.) The CESI secretariat reviewed this project report on 13 May 2002 and issued its nonobjection to the document.

Development effectiveness:

The program is designed to achieve a high level of development effectiveness, producing benefits relating to SOPTRAVI's capacity to program activities, formulate policies, issue regulations, contract with the private sector, and monitor the execution of those contracts. Program inputs correspond to institutional strengthening activities, design and environmental engineering services, and road safety. Outputs relate to implementation of the proposed institutional measures to achieve results that lead to a transformation of SOPTRAVI into an institution capable of managing road sector resources efficiently. Program impacts are reflected in road investments that are adjusted more adequately to the country's development priorities and its transportation system. As accident rates are reduced, the population's quality of life is improved and the corresponding social costs are lowered.

Benefits:

The main benefits of the program are: (1) budgetary, resulting from lower construction and maintenance costs for the road system; (2) for road system users, who will have a system that responds more effectively to national priorities; (3) for users in general, as a result of the implementation of road safety measures; (4) the inclusion of environmental regulations in the design and construction of works; and (5) lower costs in time for bidding for works, and greater transparency in bidding processes.

Risks:

Bearing in mind the recent experiences of SOPTRAVI, the program's main risks are: (1) a lack of political will on the part of the

government to execute and implement the institutional strengthening actions and plans; and (2) the risk that the GGPE: (a) may not have the level of technical independence to achieve the program's goals efficiently, and (b) may not be accompanied by capacity strengthening among civil servants, making the control of outsourced project management activities difficult. To address these risks, the government is moving forward proactively with implementation of the proposed institutional strengthening program, issuance of regulations under the new Contracting Law, and establishment of the GGPE, which will have a high degree of autonomy and technical independence.

**Special
contractual
clauses:**

Precedent to the first disbursement: (a) the GGPE will be established, and will receive the staffing and material resources it needs for its operations; (b) the coordinator of the IDB program will be hired; and (c) the project management company that will support SOPTRAVI will be hired.

Precedent to the first disbursement of the resources for the maintenance operations evaluation system included in component 3 of the program: that a resource transfer agreement has been reached between the borrower and the Road Fund for execution of the activities to be carried out by the Fund.

The Bank may make a special disbursement to initiate the preparatory activities of the program, for up to the equivalent of US\$65,000 drawn from Bank financing, once the loan contract has entered into effect and the general conditions precedent to the first disbursement indicated in the General Conditions of the loan contract have been met.

**Poverty-
targeting and
social sector
classification:**

The operation focuses on issues of institutional strengthening, and accordingly does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the bank's Eighth Replenishment (document AB-1704). This operation does not qualify as a poverty-targeted investment.

**Exceptions to
Bank policy:**

None.

Procurement: The Bank's standard procurement procedures will govern the procurement of works, goods and related services and contracting of consulting services. International competitive bidding will be required for the procurement of related works in amounts equal to or above the equivalent of US\$1,000,000, and for goods and related services in amounts equal to or above the equivalent of US\$250,000. International public calls for proposals will be required for the contracting of consulting services in amounts equal to or above the equivalent of US\$200,000.

I. BACKGROUND

A. Context

- 1.1 SOPTRAVI, as governing body of the transportation sector (highways, harbors, and civil aviation) and housing, is responsible for the planning, study, design, construction, and maintenance of the national highway system, including interurban and rural roads. Honduras's official highway system includes approximately 13,600 kilometers of main, secondary, and tertiary roads. Annual average daily traffic on the country's main highway, the CA-5 between Tegucigalpa and San Pedro Sula, ranges from 5,000 to 7,000 vehicles, according to traffic data for 2000. With regard to road maintenance, only 37% of the main highways are in good condition, 38% are in fair condition, while 25% are in poor condition. The annual road maintenance and rehabilitation plan executed by the road fund, a decentralized agency of SOPTRAVI, entered into effect in 1999. The road fund is administratively, technically, and financially independent. The resources of the road fund come from a tax on the sale of fuel in Honduras. For roadway maintenance, the road fund contracts with approximately forty companies and microenterprises which essentially use local labor in rural areas.

B. Institutional features of execution

1. Level of national execution and support from the Bank and other agencies

- 1.2 In terms of road investment, SOPTRAVI has executed an overall average of US\$85 million per year for the 1996-2001 period. Of this overall amount, approximately US\$45 million per year come from external sources, with Bank financing averaging US\$15 million per year. During the emergency period, the Government of Honduras received US\$300 million from the Bank, the World Bank, and various bilateral sources. However, approximately US\$100 million of those resources have not yet been disbursed. Except for the execution of programs financed through grants from USAID (RECAP), Sweden, and Japan, the execution of programs of the World Bank and other donors has been slow owing to institutional weakness in the highway subsector of SOPTRAVI, particularly after Hurricane Mitch. It should be noted that the success of the RECAP program is largely explained by the use of a totally outsourced approach to execution, including project management activities.
- 1.3 In response to the damage caused by Hurricane Mitch, the Bank financed two operations: 1029/SF-HO and 1053/SF-HO in January 1999 and January 2000, respectively, for a total of US\$35.6 million. The reformulation of US\$7 million was also approved, bringing the Bank's total contribution to US\$42.6 million. Existing external auditing concludes that execution of the emergency projects has been unsatisfactory. Priority works were selected and activities were planned based on preliminary and tentative information on the damage caused by Hurricane Mitch.

Execution periods and final costs have been more than double the amount initially planned. Loan 1029/SF-HO, the first of the loans approved by the Bank, is completing execution with the final disbursement scheduled for June 2002. Loan 1053/SF-HO was declared eligible on 10 August 2001, seventeen months after it was approved by the Bank's Board of Executive Directors. Fifty percent of the available resources of loan 1053/SF-HO, approximately US\$13 million, will be disbursed toward mid-2003. The reasons for this unsatisfactory execution lie in the crisis situation caused by Hurricane Mitch, but they are also largely related to institutional problems affecting SOPTRAVI (see paragraphs 1.4 through 1.9). This program has been designed taking the results and inputs of the emergency loan audits into account.

2. Problems and challenges in the sector

- 1.4 In the early 1990s, SOPTRAVI was reformed and converted into the agency responsible for sector policies and planning, while the main activities of roadway construction and maintenance were contracted out to the private sector. In its new role, SOPTRAVI faces the following structural problems: (1) strategic and operational planning in the sector does not correspond to the country's development needs; (2) the capacity is not available to adequately manage the construction and improvement work that the private sector is undertaking; (3) maintenance coverage is low; and (4) highway safety is haphazard and affects the poorest population.
- 1.5 The shortcomings in planning are the result of an outdated master highway plan, which dates to 1989, and the selection of projects without using objective criteria. Although there is a complete system for socioeconomic evaluation of the highway investment program based on the HDM¹ system, its results are not used regularly in decision making concerning investments, owing to past managerial weakness. Works that have been executed correspond more to the areas of specialization of the agencies providing the funding than to technical support. The shortcomings in planning are the result of projects selected without objective criteria that correspond to the opportunity cost of the resources. Construction is undertaken before final designs are available, and highway sections are contracted out despite the fact that their length fails to take advantage of the economies of scale associated with such projects. The lack of long-term planning prevents the development of engineering firms, limits their capacity to undertake large-scale projects and invest in equipment and technology, and promotes the creation of artificial barriers to the entry of new domestic and international firms. Systematic forecasts to improve highway safety are also lacking from these planning processes.
- 1.6 Execution points out further weaknesses in the project management system. SOPTRAVI lacks the capacity to manage highway projects adequately. It does not

¹ HDM is a software program originally developed by the World Bank. The program determines the socioeconomic rationale for individual sections within a highway system.

have modern systems for project planning, control of execution, and cost and quality analysis. As a result, modern project planning systems cannot be implemented and operated effectively within SOPTRAVI, owing to the government's rigidity particularly with regard to staff rosters, salaries, and administrative procedures.

- 1.7 The low execution capacity is the result of an organizational design in which the administrative and operational functions are slow, costly, and lacking in transparency. The procurement processes are cumbersome and have led to the use of contractors whose capacities often do not correspond to project requirements. The payment process for builders and consultants includes as many as forty steps or procedures within and outside SOPTRAVI, and contractors estimate that delays and uncertainties in payments increase price proposals by as much as 25%. Project supervision also presents shortcomings: supervisors receive a fixed monthly salary regardless of results, which introduces a clear conflict of interest that translates into excessive execution periods and costs. Although the Bank has supported the government in the past with regard to contracting procedures and the institutional framework concerning competitive bidding, through the operation to strengthen the public sector in general (Public Sector Reform, HO-0101), serious weaknesses still remain. Nonetheless, improvement in contract management in the road sector is expected under the new Government Contracting Act of 2001, which shows progress on this issue. The regulations of the new law are being worked out now.
- 1.8 The inadequate organizational design that sustains the project planning and execution processes prevents the quantity and quality of needed human resources from being defined accurately. The distribution of responsibilities relegates professional positions to only 6% of SOPTRAVI's personnel. The compensation received by qualified professionals is only half the salary of their counterparts in the private sector, and the budgetary outlook rules out significant across-the-board increases in salaries in the public sector over the short term. As a result, SOPTRAVI lacks competent human resources, particularly among professionals.
- 1.9 The financial sustainability of road maintenance by the road fund is weak since its annual budget is vulnerable to the budgetary adjustments that are also affecting the rest of Honduras's public finances. The low maintenance coverage is the result of insufficient resource allocation. The current investment plan covers only 80% of the main paved system, and budgetary adjustments do not allow coverage to be completed. In 2002 the reduction will reach 50% of the value that, under the new act, would be appropriate for the maintenance activity. This trend compromises the sustainability of investments in road expansion and improvement.

C. Relation of the program to the Bank's strategy in Honduras

- 1.10 The country paper establishes support for the reconstruction and transformation process in Honduras as the central objective. The following priorities have been set

for the transportation sector within the poverty reduction strategy: (i) organization of the institutional framework that defines and establishes independence between regulatory functions and the provision of services; (ii) opening the sector up to private-sector participation; and (iii) setting sector policies. This program covers these objectives by helping to establish a solid institutional basis, strengthen the allocation of available resources, analyze new financing modalities for road rehabilitation, and provides the human resources and the training they need to bring about efficient road management.

D. Innovation loan rationale

- 1.11 This program was designed for the specific case of the road sector in Honduras as an innovation loan based on the fact that it undertakes a series of experimental actions for the public administration environment and the road sector in Honduras. Specifically, the innovation program is based on the following considerations: (i) it rearranges the institutional underpinnings of SOPTRAVI through an innovative project management model in Honduras to address the various challenges in the sector; (ii) it promotes consensus building among the various government agencies regarding the importance of maintaining road infrastructure and stability in the financing of road investment through multiyear investment planning; (iii) it supports the training and strengthening of the executing agency prior to financing road works; (iv) it introduces the road safety component for the first time in Honduras as an activity inseparable from road operation; (v) the lessons learned can be used in the future for SOPTRAVI's other road investments using local and international resources; and (vi) it implements a system of supervision and evaluation that will provide feedback to measure program performance and results.

E. Strategy of the operation

- 1.12 The program reflects a strategy the seeks to establish sustainable conditions so that public investment in the transportation sector contributes effectively to the economic and social development of Honduras. The main elements of the strategy are: (1) as institutional and budgetary restrictions are present throughout the public sector, achievable actions are proposed so as to build a successful and replicable model; (2) initially, actions will focus on the institutional needs of the program financed by the Bank, with a design that enables the positive effects of those actions to be transferred subsequently to all multilateral and bilateral institutions and the other subsectors under its responsibility; (3) private-sector involvement will be expanded to include project management; and (4) a careful exercise in identifying and planning priorities over time will be carried out, taking the country's execution capacity into account.
- 1.13 Among these elements, it is important to note that outsourcing project management is an innovative action in the region that has been used successfully in road projects worldwide and is in the process of being implementing in other projects approved

by the Bank, such as the Santa Cruz—Puerto Suárez corridor project in Bolivia (BO-0036).

II. PROGRAM DESCRIPTION

A. Program objectives

- 2.1 The general objective of the program is to improve the quality of road construction, the reliability and availability of resources allocated to the sector, and the safety levels of the road system in Honduras, through the institutional strengthening of SOPTRAVI.
- 2.2 The specific objectives of the program are: (1) implementation of institutional strengthening actions in the planning, contracting for services, and execution of road works, and in preparation of the final designs for works that may be financed by the Bank in the future, through HO-0207; and (2) implementation of a pilot road safety project. The logical framework of the operation is presented in Annex I.

B. Program components

- 2.3 This operation consists of the following three components:
 1. **Institutional strengthening (US\$1.325 million).** This component comprises the following subcomponents:
- 2.4 **(1) Implementation of the Grupo Gerencial de Proyectos y Ejecución [Project and Execution Management Group] (GGPE).** Financing will be provided for implementation and operation of the GGPE, as a new entity within SOPTRAVI for the management and execution of road projects. Financing will also be provided for the cost of a specialized firm to support the GGPE in project management, to ensure the quality of the projects and compliance with the agreed schedules and budgets (see paragraphs 3.1 through 3.5). The main activities of the project management company will be: (a) the preparation of an action plan and schedule upon the start of its work, which will include all the specific activities to be carried out; (b) quality control of final designs; (c) technical support for the Dirección General de Carreteras [Office of Highways] (DGC); (d) preparation of progress reports on preinvestment studies²; (e) technical control of field supervision of works; and (f) administrative control of the program in general, to monitor compliance with schedules and costs. When program execution is completed, these costs will be covered by the borrower. Additionally, to ensure the sustainability of the GGPE, SOPTRAVI will cover all its costs with the exception of costs relating to the

² The GGPE will replace the existing executing unit for emergency operations (1053/SF-HO and 1029/SF-HO) as of 1 January 2003, and will support SOPTRAVI in execution of the works included in emergency loan 1053/SF-HO.

coordinator of Bank projects, which will be financed using resources of the Bank loan.

- 2.5 **(2) Multiyear investment plan.** Financing will be provided for preparation of a formal system of multiyear planning, allowing for creation of the necessary capacity for planning, formulating, and supervising road projects in general and concession projects specifically, and for improvement in the capacity to manage the social and environmental dimensions of road projects. The multiyear investment plan will have components with terms of one year, three years, and five years and will be reevaluated each year so as to incorporate new projects that are officially included in resource planning. In this way, SOPTRAVI will have a tool to incorporate discipline and consistency in planning, thereby establishing a planning culture.
- 2.6 **(3) Restructuring the payment and contracting processes.** SOPTRAVI's internal contracting and contractor payment processes will be improved, and these processes will be coordinated with other government agencies, particularly the Ministry of Economy and Finance (SEFIN) and the Office of Administrative Accountability, seeking to achieve greater flexibility, transparency, and effectiveness. Financing will be provided for a study that will help streamline SOPTRAVI's internal procedures for approving payment estimates; define the functions of each manager within SOPTRAVI in terms of contracting and reviewing payment estimates; revise the selection committees for competitive bidding procedures; and involve the personnel of other government agencies in making the requisite contracting and payment procedures more flexible.
- 2.7 **(4) Optimization of human resources.** Financing will be provided for the design of a strategy to manage SOPTRAVI's human resources in a manner consistent with the new organizational proposals and the country's budgetary reality. The main activities will include: (i) a review of the basic functions of each technical office; and (ii) an evaluation of the executing units set up within SOPTRAVI with resources from other financial institutions with a view to maximizing their efficiency; and (iii) a definition of the skills mix of civil servants in management, technical, and administrative positions within SOPTRAVI.
- 2.8 **(5) Program to strengthen the system of training and instruction for road management.** Financing will be provided for the implementation of a training and instruction program, with the support of universities, in the areas of planning, road and transportation engineering, environment, project management, and legal and procedural issues. The main activities will include holding technical training workshops for civil servants involved in the road sector and the inclusion of university trainees, who will join the DGC for a specified period. This activity will be operated by a coordinator to be financed with program resources. A specialized evaluation of this training program will be included to assess its effectiveness.

- 2.9 **(6) Institutionalization of environmental management and the vulnerability variable.** With regard to environmental and social concerns, SOPTRAVI's environmental management unit (EMU) will be strengthened so as to perform the socio-environmental responsibilities and functions designated in the road projects. This strengthening will also reduce the vulnerability of the infrastructure to natural disasters and the need for addressing nonmotorized transportation, such as pedestrians and bicycles among others, will also be evaluated. The main activities include: (i) institutional, technical, and logistic strengthening and training of the EMU (through implementation of an environmental management system (EMS); (ii) the analysis, adoption, and fulfillment of environmental procedures established by Honduran law and in the regulations for the road sector pursuant to the general law on the environment; (iii) preparation of the environmental and social impact studies with their respective environmental and social management plans (ESMP) and application of those plans to the final designs of the works to be carried out in a possible future Bank operation (HO-0207); (iv) reduction of infrastructure vulnerability to natural risks (floods, hurricanes, landslides) by evaluating the vulnerability of the system, which will promote the identification and solution of strategic points along the network, planning for necessary actions and alternatives in case of emergency, and planning for investments and priority maintenance; (v) performing an analysis of institutional management of national disasters so as to develop a preventive preparation strategy in infrastructure design; (vi) evaluation of the need for addressing nonmotorized transportation; and (vii) updating environmental management data of the geographical information system of SOPTRAVI's Unidad de Planeación y Evaluación de Gestión [Department of Planning and Evaluation of Development] (UPEG).

2. Support for the planning and design system (US\$800,000). This component comprises the following subcomponents:

- 2.10 **(1) Strategic transportation plan.** Support will be provided for preparation of a strategic plan for the transportation sector so as to help orient long-term investment decisions. The strategic plan will replace the current master plan, and will include projects that will transform the highway sector, such as the integration of the Honduran highway system into the systems of neighboring countries as provided in the highway initiative of the Puebla-Panama Plan.
- 2.11 **(2) Road concession feasibility study.** Financing will be provided for the following activities: (i) a study to assess the feasibility of road concessions for the maintenance and rehabilitation of works for the sections with the heaviest vehicular traffic in the country, such as the Carretera del Norte (CA-5) between Tegucigalpa and San Pedro Sula; and (ii) holding technical training workshops for SOPTRAVI staff concerning the concession of transportation infrastructure. The possibility of implementing a mixed scheme for projects will also be studied, consisting of public financing from SOPTRAVI, on the one hand, and financing from a private-sector licensee on the other, so as to reduce the concurrent cost to public expenditures.

This study will provide a better understanding of the legal, institutional, financial, country risk, and technical aspects (particularly the annual average daily traffic [AADT]) associated with the road concession concept. Owing to relatively low flows (fewer than 8,000 vehicles per day on the main highway), the road concession concept is not expected to be applied generally. However, the aim is to study the potential of using concession schemes with public and private participation so as to maximize the impact of the resources used, and to identify additional sources of revenue to finance road maintenance.

3. Support for the road fund and road safety (US\$4.85 million). This component comprises the following subcomponents:

- 2.12 **(1) Maintenance operations evaluation system.** Financing will be provided for the design and implementation of an operations evaluation system regarding the maintenance companies' compliance with their objectives.
- 2.13 **(2) Institutionalization of a road safety system and road safety pilot project.** Financing will be provided for the design, execution, and evaluation of a pilot project on the Carretera del Norte (CA-5) between Tegucigalpa and San Pedro Sula (rural and urban areas); and the institutionalization of the road safety variable in the highway sector and in the planning stage of investments in the road system. One or more bilateral donors is expected to offer cofinancing resources for this road safety component in the future.
- 2.14 The purpose of the pilot project, which was designed using resources of technical cooperation operation ATN/DC-6937-HO "Transportation Safety Evaluation", is to demonstrate the value of using simple and economical means to improve safety on the CA-5 between Tegucigalpa and San Pedro Sula. The resources will be used to:
 - (a) establish a complete system for the institutionalization of road safety management in Honduras (e.g., the National Road Safety Council; safety units; an accident information system; and improvement in police monitoring);
 - (b) implement physical road safety measures, incorporating a design that is sensitive to individual users and the risks facing women and children;
 - (c) evaluate the results of the pilot project and disseminate information locally as well as information from the authorities, through social marketing to the public;
 - (d) train teachers and students and disseminate information to the public in the area;
 - (e) incorporate an analysis of social use of the highway and design the implementation of physical measures and a public campaign to incorporate the recommendations of this analysis;
 - (f) train a select team of traffic officers, prepare an annual police action plan, and purchase equipment to improve monitoring;
 - (g) design and implement an education program for the public and the parties involved on the relation and importance of the level of road maintenance and the accident rate; and
 - (h) analyze, design, and build approximately ten pedestrian bridges along the Carretera del Norte (CA-5) between Tegucigalpa and San Pedro Sula.

C. Program costs

- 2.15 The overall cost of the program is estimated at the equivalent of US\$8.5 million, to be financed as follows: (i) US\$7.6 million from the Bank, in resources from the Fund for Special Operations (FSO); and (ii) US\$900,000 in local counterpart funds, to be covered by the Government of Honduras through budget allocations to SOPTRAVI.

Table 2.1. Costs by component and by expense category
(amounts in equivalent US\$ thousands)

Expense Category	IDB (FSO)	Local Contribution	Total	%
1. ADMINISTRATION (support for execution)	650	75	725	8.5%
1.1 Project management firm	510	55	565	
1.2 Coordinator of IDB projects	50	10	60	
1.3 Financial audit	90	10	100	
2. DIRECT COSTS	6,240	735	6,975	82.1%
2.1 Component 1. Institutional strengthening	1,135	190	1,325	15.6%
2.1.1 Multiyear investment plan	170	30	200	
2.1.2 Restructuring of payment and contracting procedures	100	25	125	
2.1.3 Optimization of human resources	395	55	450	
2.1.4 Program to strengthen the system of training and instruction for road management	170	30	200	
2.1.5 Institutionalization of environmental management and the vulnerability variable	300	50	350	
2.2 Component 2. Support for the planning and design system	715	85	800	9.4%
2.2.1 Strategic transportation plan	360	40	400	
2.2.2 Road concession feasibility study	355	45	400	
2.3 Component 3: Support for the road fund and road safety	4,390	460	4,850	57.1%
2.3.1 Maintenance operations evaluation system	90	10	100	
2.3.2 Institutionalization of road safety	1,350	150	1,500	
2.3.3 Road safety pilot project	2,950	300	3,250	
3. EXTERNAL EVALUATIONS	200		200	2.4%
3.1 Semiannual evaluations and monitoring system	200		200	
4. UNALLOCATED EXPENSES	360	40	400	4.7%
4.1 Contingencies	360	40	400	
5. FINANCIAL EXPENSES	150	50	200	2.4%
5.1 Interest	74		74	
5.2 Credit fee		50	50	
5.3 Inspection and supervision	76		76	
TOTAL	7,600	900	8,500	100%
Percentage	90%	10%	100%	

D. Poverty-targeting and social sector classification

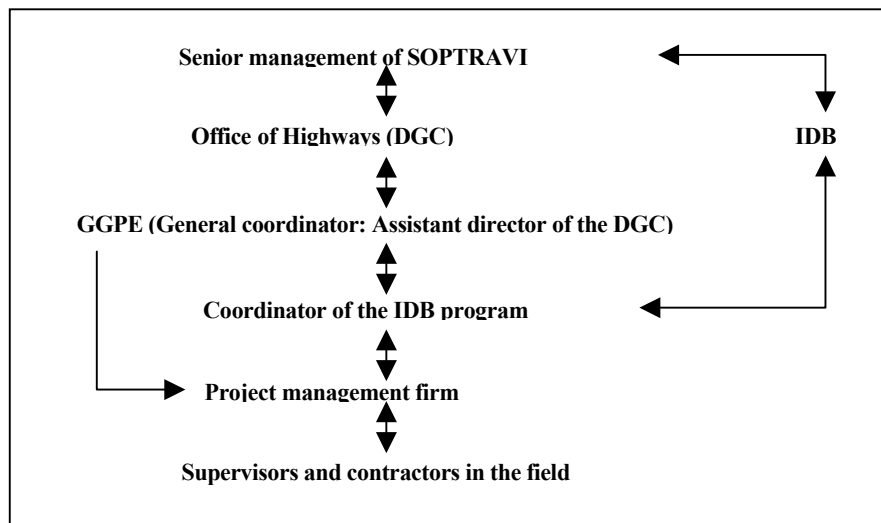
- 2.16 The operation focuses on issues of institutional strengthening, and accordingly does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the bank's Eighth Replenishment (document AB-1704). This operation does not qualify as a poverty-targeted investment.

III. EXECUTION FRAMEWORK

A. Execution mechanism

- 3.1 The borrower will be the Republic of Honduras and the executing agency will be the Secretaría de Obras Públicas, Transporte y Vivienda [Ministry of Public Works, Transport, and Housing] (SOPTRAVI), through the Grupo Gerencial de Proyectos y Ejecución [Project and Execution Management Group] (GGPE), to be established by the senior management of SOPTRAVI and attached to the Office of Highways (see Table 3.1.).

Table 3.1. Execution Framework of the GGPE



- 3.2 The GGPE will be led by a general coordinator, who will be the assistant director of SOPTRAVI's Office of Highways (DGC). It will be the coordinator's responsibility to manage the GGPE, making decisions on behalf of the government and maintaining technical independence to execute the program. The specific functions of the general coordinator are: (i) coordination of program activities with SOPTRAVI's other activities using local and international financing; and (ii) general supervision of all technical, financial, and administrative activities of the program. The general coordinator will be assisted by civil servants of the DGC.

- 3.3 The GGPE will also have a coordinator of IDB projects who will be responsible for informing the Bank of the technical and financial progress of the program, and will be supported by an accountant and the requisite administrative staff. The specific functions of the coordinator of IDB projects are: (i) management of the technical, financial, and administrative activities of the services provided by the specialized firm, the Bank, and SOPTRAVI; (ii) preparation of periodic progress reports on activities; (iii) serving as a link between the executing agency and the Bank; and (iv) supervision of the specialized firm. The GGPE, in coordination with the Bank's project coordinator, will be responsible for the following specific assignments: (i) handling the procurement of goods and related services and contracting for consulting services; (ii) presenting disbursement requests to the Bank along with all the necessary supporting documentation, as well as progress reports and financial statements of the program, duly audited by a public accounting firm acceptable to the Bank; (iii) supervising program activities; and (iv) maintaining a financial and accounting system that enables the Bank to supervise and review the program's use of Bank financing resources and the local counterpart, and the use of revolving fund resources.
- 3.4 The GGPE will also be supported by a specialized firm responsible for providing the GGPE with all the services, assistance, and resources it needs (technical staff, accounting software, hardware, transportation, office supplies, etc.) for project and construction management. The firm will have a sufficient number of experts available on issues of road and bridge engineering, project planning, quality control of final designs, control of execution, and cost analysis and control. The main specific activities of the firm specializing in project management concern project management and are described in paragraph 2.4.

B. Monitoring and monitoring system

- 3.5 Program monitoring will be provided by a consulting firm financed through Bank financing resources. The terms of reference for conducting these evaluations will be prepared by the Bank in cooperation with SOPTRAVI. Program monitoring provides for periodic assessment of the indicators set in the logical framework (see Annex I). The GGPE and the coordinator of Bank projects will keep the Bank informed at all times.
- 3.6 Responsibility for monitoring the various activities of the program will be shared as follows: SOPTRAVI, with the support of the GGPE, will manage contracts to rehabilitate existing roads and bridges included in the Bank's emergency loan (1053/SF-HO), and will coordinate the studies and plans proposed herein as part of the institutional strengthening program (see paragraphs 2.4 through 2.11, 2.13 and 2.14); and separately (but in coordination with SOPTRAVI), the road fund will manage all routine and periodic maintenance contracts, as well as the study on the maintenance operations evaluation system (see paragraph 2.12) of this program.

- 3.7 Three evaluations are planned: the first after six months; a midterm evaluation 12 months after the start of the program or once 50% of the resources of the Bank's financing have been disbursed, whichever comes first; and a third evaluation after 21 months. The initial evaluation will seek to assess: (a) the level of implementation of the institutional strengthening program action plan established by the GGPE; and (b) the initial actions associated with the road safety component. Based on the results of the initial evaluation, if necessary, adjustments will be made in the orientation of the program's planned activities. The midterm evaluation will include an analysis of progress toward achieving the following indicators, which must be met prior to the approval of a new road operation by the Bank (HO-0207): (A) the level of execution of loan 1053/SF-HO has progressed substantially. This will be verified when 75% of the resources of loan 1053/SF-HO are committed, and at least 50% of those resources have been disbursed, and that the schedule and budgetary indicators of works pursuant to the emergency loan as described in Annex I, Logical Framework – Purpose have been met; (B) SOPTRAVI has the institutional tools to plan and execute resources in the road subsector in an efficient manner. This target will be considered achieved upon: i) the approval and start of implementation of the multiyear investment plan, which will include the criterion of the highway system's vulnerability to natural disasters in the prioritization of works; ii) the existence and implementation of an updated and satisfactory public information system on bidding and contracts according to public and private parties involved; iii) assignment of the necessary staff for the EMU and establishment of the environmental management system (EMS) to ensure the institutional capacity of the highway sector with regard to the environment; (C) minimally a 10% budget increase in the road fund for 2003 for road maintenance, and that the level attained in subsequent years is maintained as a minimum; and (D) approval of the final designs of priority works that may be financed through a future Bank operation (HO-0207), and inclusion in those designs of the recommendations of the environmental and social impact studies and environmental and social management plan (ESMP). Compliance with this indicator will be verified by means of a technical review of the designs by the GGPE and the Bank. For the purposes of this evaluation, program resources will be used to finance the hiring of an environmental specialist, in accordance with the terms of reference agreed between the executing agency and the Bank.
- 3.8 Within the three months after completion of the program the final evaluation will be conducted, which will include the following: (i) institutional accomplishments of SOPTRAVI and implementation of the road safety pilot project; (ii) an analysis of the possibility of replicating and/or extending this experience to other international donor programs within SOPTRAVI and to the national highway investment program; and (iii) lessons learned in general, and the GGPE's performance of the program in particular.

C. Procedures for contracting and the procurement of goods and services

- 3.9 The Bank's standard procurement procedures will govern the procurement of works, goods, and related services and contracting of consulting services: (1) international competitive bidding (ICB) will be required for consulting services in amounts above US\$200,000, and (2) ICB will also be required for the procurement of works in amounts equal to or above US\$1 million, and for equipment in amounts equal to or above US\$250,000.

Table 3.2. Procurement of goods and services (amounts in US\$)

	Works	Goods	Consulting
International competitive bidding	Equal to or above US\$1 million	Equal to or above US\$250,000	Above US\$200,000
Local competitive bidding	Below US\$1 million and up to US\$25,000	Below US\$250,000 and up to US\$25,000	Equal to or below US\$200,000 and up to US\$25,000
Three price quotes	Below US\$25,000	Below US\$25,000	Below US\$25,000

D. Auditing

- 3.10 SOPTRAVI, through the GGPE, will submit the program's annual financial statements to the Bank, audited by an independent public accounting firm acceptable to the Bank, within a period of 120 days following the close of each fiscal year. The cost of the audit will be financed with resources of the Bank loan.

E. Revolving fund

- 3.11 Based on the activities to be undertaken and the planned execution schedule of the program, it is recommended that a revolving fund be established of up to the equivalent of 5% of the Bank financing. The payment mechanism proposed by SEFIN and SOPTRAVI will also be evaluated to ensure that payments chargeable to the revolving fund are made within no more than 15 days, and that the revolving fund is operating adequately.

F. Contractual conditions

- 3.12 Precedent to the first disbursement: (a) that the GGPE has been established and given the staff and material resources necessary for its operations; (b) that the coordinator of the IDB program has been hired; and (c) that the specialized project management company has been hired to support SOPTRAVI. Precedent to the first disbursement of resources for the maintenance operations evaluation system in component 3 of the program: that a resource transfer agreement has been reached between the borrower and the road fund for execution of the activities to be carried out by the road fund (see paragraph 2.12).

- 3.13 The Bank may make a special disbursement to initiate the preparatory activities of the program, for up to the equivalent of US\$65,000 drawn from Bank financing, once the loan contract has entered into effect and the general conditions precedent to the first disbursement indicated in the General Conditions of the loan contract have been met.

IV. EFFECTIVENESS, BENEFITS AND RISKS

A. Development effectiveness

- 4.1 The program is designed to achieve a high level of development effectiveness, producing benefits relating to SOPTRAVI's capacity to program activities, formulate policies, issue regulations, contract with the private sector, and monitor the execution of those contracts. Program inputs correspond to institutional strengthening activities, design and environmental engineering services, and road safety. Outputs relate to implementation of the proposed institutional measures to achieve results that lead to a transformation of SOPTRAVI into an institution capable of managing sector resources efficiently in keeping with the public good and incorporating highway safety and environmental concerns into its projects. Program impacts are reflected in road investments that are adjusted more adequately to the country's development priorities and its transportation system, projects more consistent with the benefits and economic costs incurred, and a reduction in accident rates and the high transaction costs within the public sector.

B. Benefits

- 4.2 The most significant direct benefits of the program relate to the institutional strengthening of SOPTRAVI, the purpose of which is to increase the added value of future investments. The main benefits of the program are: (i) budgetary benefits, resulting from lower construction and maintenance costs; (ii) benefits for road system users deriving from having a system that responds more effectively to national priorities, and from the greater availability and reliability of the system; (iii) benefits for users in general, as a result of the implementation of road safety measures; (iv) benefits resulting from the inclusion of environmental regulations in the design and construction of works, and attention to environmental damage caused by infrastructure development; and (v) benefits to the country through a shorter bidding process for works, and greater transparency in bidding processes.

C. Risks

- 4.3 Bearing in mind the recent experiences of SOPTRAVI during execution of the emergency projects, the program's main risks are: (1) a lack of political will on the part of the government to execute and implement the institutional strengthening actions and plans; and (2) the risk that GGPE operations (a) may not have the level

of technical independence to achieve the program's goals efficiently; and (b) may not be accompanied by capacity strengthening among civil servants, making the control of outsourced project management activities difficult.

- 4.4 The project team has conducted three missions since SOPTRAVI took up its new powers. These missions included holding a workshop on the highway sector in which all interested parties in the public and private sector took part. The assessment of the workshop and of the legal consultant indicates that the new government is deeply interested in implementation of the proposed institutional strengthening program in issuance of regulations under the recently approved Contracting Law, the effect of which will be to make improvements possible in the way the government contracts with the private sector. Additionally, the team believes that the requirement of compliance with the indicators described in paragraph 3.7 prior to the approval of a new road operation by the Bank is a significant incentive for SOPTRAVI. Additionally, the new GGPE execution framework will enable SOPTRAVI to meet the challenge of having sufficiently qualified personnel for road management.
- 4.5 To mitigate the risk that the GGPE might be captured by the bureaucratic procedures of SOPTRAVI and the rest of the public sector, from the outset the GGPE will be set up with the full autonomy and technical independence it needs to execute the program. To mitigate the risk associated with control of outsourced activities, the corps of civil servants will receive technical strengthening so that they will be capable of supervising the activities of the project management firm adequately.

D. Environmental and social viability of the program

- 4.6 In general, the direct and indirect impacts of this type of program are expected to be mostly positive, by contributing substantially to improvements in the institutional capacity of SOPTRAVI. Additionally, the actions to be undertaken in the framework of the road safety program are expected to be very positive, reducing the accident rate particularly for pedestrians and nonmotorized modes of transportation.
- 4.7 Specifically, the program will not have any negative direct or indirect environmental or social impacts since it focuses mainly on supporting institutional strengthening and highway planning issues, including institutions and regulations relating to the issues of environmental and social vulnerability and viability. The final designs and the environmental and social impact studies, with their respective environmental and social management plans, of the works included in the emergency loan (1053/SF-HO) and for the potential future road operation mentioned above (HO-0207) would be financed through loan 1053/SF-HO and loan 1073/SF-HO, "Preinvestment Program for Reconstruction and Transformation." The EMU will be responsible for the execution of these environmental management

studies. The terms of reference for the environmental and social impact studies are available in the technical files of the program.

- 4.8 As a result of Hurricane Mitch, SOPTRAVI began to regulate the handling of the environmental and social variable in project planning and design; in this regard, Honduras has made significant progress. The mandate of the environmental management unit (EMU) within SOPTRAVI is to: (i) handle the procedures required by law; (ii) support the entire process and integration of the environmental variable into the country's road projects and public works; (iii) contract, review, and process the environmental and social impact studies as specified in Honduran regulations; and (iv) incorporate and monitor the environmental and social impact studies, including in construction bidding documents and works supervision, and in contracts for compliance with mitigation measures authorized by the Ministry of Natural Resources. Presently, the EMU has a complete environmental manual for roads, which is being streamlined through a component of ATN/SC-6931-HO — Road Management and Environmental Protection, so as to create a practical guide.
- 4.9 Existing institutional weaknesses in the EMU include: a lack of qualified staff, inadequate resource allocation in the annual budget, a weak systematized mechanism to review the environmental and social variable in the project cycle (internal environmental management system), a lack of interinstitutional coordination with the other relevant departments and secretariats, and shortcomings in environmental monitoring, which should guarantee that technical environmental specifications are included and met in the road project cycle. Moreover, the system to define the priority of projects that SOPTRAVI is to execute does not assess the highway system's vulnerability to natural disasters.
- 4.10 It is important to note that this loan document includes the environmental and social variable in all the chapters and sections in which the variable is relevant; the package of environmental and social actions planned within the investment program defines and forms the general environmental and social management plan of the program, in accordance with Bank procedures (PR-204).

LOGICAL FRAMEWORK
PROGRAM FOR SUSTAINABLE INSTITUTIONAL STRENGTHENING OF THE ROAD SECTOR (HO-0116)

Objectives	Verifiable Indicators	Means of Verification	Assumptions
Goal Management of the road system is compatible with the country's needs, and the system provides reliable, safe, sustainable, and economical service.		National highway statistics. Program performance monitoring reports of the GGPE and the DGC.	
Purpose Quality of road project execution is improved, reliability and availability of resources allocated to the sector is increased, and the safety levels of the highway system in Honduras are improved.	<ul style="list-style-type: none"> Ratio (amount executed)/(DGC staff) increases by 20%. Ratio (cost of execution)/(scheduled cost) decreases by 50% for projects financed by the Bank. Ratio (execution period)/(scheduled period) reduced by 50% for projects financed by the Bank. Maintenance coverage indicators increased by 10%. Number of fatalities caused by transportation accidents reduced by 30% for roads in the pilot project. Executed road works are previously included in the multiyear investment plan. 	Program performance monitoring reports of the GGPE and the DGC. National highway statistics. Performance report for project 1053/SF-HO. Multiyear investment plan.	The economic, technical, social-environmental, and safety objectives included in the program and the designs are consistent with the priorities of the country and the sector.
Components 1. Institutional strengthening 1.1. Firm specialized in project management, for project management. 1.2. New procedures for contracting and payments to contractors designed by specialized consultants, and implements.	<ul style="list-style-type: none"> Official establishment of the GGPE (precedent conditions). Project management firm complies with terms of reference with respect to: a) revision of designs and quality control; b) control of schedules and budgets; and c) proactive program planning. Adoption and streamlining of standardized procedures for managing contracts agreed upon with the Bank. 	<ul style="list-style-type: none"> GGPE performance reports. UPEG reports. Contract of the firm specializing in project management and work reports. Satisfaction survey of web page users. 	SOPTRAVI maintains the priority of the GGPE within the DGC. Contractors respond by increasing capital investments and stepping up the pace of execution

Objectives	Verifiable Indicators	Means of Verification	Assumptions
<p>1.3. Training and instruction program executed.</p> <p>1.4. Planning system strengthened.</p>	<ul style="list-style-type: none"> Time to payment decreases to 60 days after payment estimate is submitted. List of companies for bidding processes available on a web page. Technical training courses (minimum 6 courses) implemented for a minimum of 50 SOPTRAVI staff members. New human resources strategy defined by SOPTRAVI. Institutionalization of the process for review and issuance of environmental licenses implements, and consideration of the vulnerability factor extended to all projects. 	<ul style="list-style-type: none"> Satisfaction survey among contractors regarding the new payment system. Progress report on results of staff training. 	<p>Agencies other than SOPTRAVI participate effectively in the program (SEFIN and DGPA).</p>
<p>2. Support for the planning system.</p> <p>2.1. Strategic transportation plan</p> <p>2.2. Road concession feasibility study</p>	<ul style="list-style-type: none"> Strategic transportation plan prepared and approved by SOPTRAVI and the Bank. Concession plan prepared, approved, and results incorporated into the financial scheme for future road works. 	<ul style="list-style-type: none"> Consultants reports 	<p>The consultants provide high-quality studies.</p>
<p>3. Support for the road fund and road safety</p> <p>3.1. Technical and management capacity of the road fund improved.</p> <p>3.2. Pilot plan for application of road safety measures executed and evaluated.</p> <p>3.3. Road safety factor institutionalized within the planning system.</p>	<ul style="list-style-type: none"> Road fund resources increased by 10% for 2003. Road fund improves its maintenance efficiency (km/US\$ of investment) by 10%. Ranking and prioritization of road works of UPEG [Department of Planning and Evaluation of Development] includes impact on road safety. Accident data system for roads in the pilot plan is operational six months after the project begins, and the physical measures for improving safety in the pilot plan are 30% implemented within 10 months after the project begins, and 100% upon project completion. 	<ul style="list-style-type: none"> Road fund performance reports Report on result of pilot safety plan UPEG reports. 	<p>Budgetary priorities include maintenance and safety of the country's highway system.</p>

Objectives	Verifiable Indicators	Means of Verification	Assumptions
<u>Activities</u> See paragraphs 2.3 through 2.14.	<ul style="list-style-type: none">• Program activities.	Semiannual evaluation reports, monitoring of disbursements, audits, and project.	Design and execution of the program are what is required and adequate. Studies and plans are prepared according to specifications.

PROGRAM FOR SUSTAINABLE INSTITUTIONAL STRENGTHENING OF THE ROAD SECTOR

PROCUREMENT PLAN

[illegible]